BRITISH COLUMBIA MILK MARKETING BOARD

Annual Report

For The Dairy Year
2000 - 2001

Twelfth Annual Report
July 31, 2001

102-00616/

2001 Annual General Meeting

OF THE

British Columbia Milk Marketing Board

Chairman	John Jansen
Vice-Chairman	Ben Cuthbert
Secretary-Treasurer	Ben Janzen
Board Member	Charlie Iberg
Board Member	John Pruim
Milk Industry Advisory Committee Chairman	Gordon Souter
Audit Committee Chairman	Dick Kleingeltink
General Manager	Thomas Demma
Assistant General Manager	Jim Byrne
Comptroller	Robert Delage
Provincial Milk Manager	Warren Penner
Policy Analyst	Geneviève Laniel
Program Manager	Scott Miles
Finance Officer	Barbara Pacholko
Quota Officer	Jennifer Lavoie
Milk Payments Clerk	Sandra Livingston
Receptionist	Kelly Fairbanks
Herd Inspector	John Lockhart
Board Office	2669 Deacon Street Abbotsford, BC V2T 6H3 Telephone: (604) 556-3444 Facsimile: (604) 556-7717 Web Site: www.milk-bc.com
Financial Institution	Bank of Montreal
Auditors	KPMG - Chilliwack
Vendor Auditors	KPMG - New Westminster
Legal Counsel	Macaulay McColl

TWELFTH ANNUAL GENERAL MEETING

THURSDAY, NOVEMBER 15, 2001
RANCHO CATERERS
35110 DELAIR ROAD
ABBOTSFORD, BC

AGENDA

Call to Order	**10:30 a.m.**
Reading of the Notice of Meeting	
Approval of the Minutes of the Eleventh AGM	
Business Arising from the Minutes	
Chairman's Statement	**John Jansen**
General Manager's Report	**Thomas Demma**
Report of the Audit Committee	**Dick Kleingeltink**
Auditors' Report	**KPMG**
Financial Statements	**Ben Janzen**
Appointment of Auditor	**Dick Kleingeltink**
Approval of Members' Remuneration	**Dick Kleingeltink**
Review of Statistical Information	**John Jansen**
Report on Legal Issues	**John Jansen**
New Business	
Adjournment	

Lunch Break

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CHAIRMAN'S STATEMENT

The August 1, 2000 to July 31, 2001 dairy year was one where significant improvements were achieved with respect to national and regional pooling issues. These improvements included a reduction in equalization obligations, an increase in provincial market sharing quota (PMSQ) allotted to British Columbia by way of the National Milk Marketing Plan (NMMP) and the prospect for growth in PMSQ.

The reduction in equalization obligations combined with higher milk prices resulted in increased values for monthly milk pools and larger returns for producers. The cost of milk procured by British Columbia processors remained competitively priced when compared to milk procurement costs for processors operating in the other western provinces.

The exit of Agrifoods International Cooperative Limited from the British Columbia processing sector in February 2001 and the subsequent entry of Saputo Incorporated brought its own brand of challenges and consequences for the British Columbia Milk Marketing Board (BCMMB) and the dairy industry in British Columbia. These events also had a significant impact on the Western Milk Pool.

In response to the new processor ownership environment, the Board researched prevailing legislative and regulatory authorities in British Columbia and other jurisdictions. Accordingly, during the latter part of the reporting period, the BCMMB channeled its efforts on an extensive consultation process involving both producers and processors. This consultation focused on the BCMMB acting in the role of first receiver of milk by October 1, 2001. Although coordinated delivery of producers' milk and its receipt by processors is an interrelated corollary of first receiver responsibilities, the BCMMB also examined cost sharing of freight, plant of last resort, interprovincial movement of milk and the assurance of a daily milk supply for British Columbia processors.

Since the World Trade Organization (WTO) Panel ruling in 1999, the Canadian and British Columbia dairy sectors have been in a constant state of change. Through the Canadian Milk Supply Management Committee (CMSMC), British Columbia has contributed to the effort of achieving a national milk marketing system where Canadian exports of dairy products would be compliant with Canada's multilateral and bilateral trade obligations. The test of this policy will be the final hearing of the WTO panel that will be held in the near future.

Besides adopting new technology to stay at the forefront of Canada's dairy industry, British Columbia's producers have demonstrated the resolve to remain in the industry. Despite the five-year trend of fewer licensed dairy farmers in the province, British Columbia continues to record more milk production each year. This increasing milk supply is meeting the sustained, yet moderate growth in demand being experienced by the dairy sector. This growth is contingent upon the slow, yet upward trend in the provincial population and gains in per capita consumption over the broad range of dairy products commonly found on store shelves.

In anticipation of the expiration of my initial three-year term as a non-producer member of the BCMMB, the Milk Industry Advisory Committee (MIAC) deliberated on this principal regulatory responsibility this summer. The outcome of its deliberations was to appoint me to serve a second term commencing November 2001. I look forward to serving the industry for this second term.

In closing, I would like to express my appreciation to producers, processors, Board Members and staff for their support and dedication during the period from August 1, 2000 to July 31, 2001.

Respectfully submitted,

John Jansen
Chairman

GENERAL MANAGER'S REPORT

Legislative and regulatory compliance and governance of the British Columbia Milk Marketing Board (BCMMB) are the responsibilities of the Chairman and the Board Members as supported by staff. Regulatory obligations are met through the work of the Board, the British Columbia Milk Industry Advisory Committee (MIAC) and the Audit Committee.

As part of its consultation practices, the Board holds producer meetings each spring and fall throughout the province. In addition to the producer meetings, the Board establishes working groups from time to time for the purpose of obtaining the views of dairy industry stakeholders. Some working groups are comprised solely of producers whereas others include both producer and processor representatives. As well, Board Members and staff regularly attend meetings organized by other British Columbia dairy industry groups in order that pertinent information can be exchanged and views gathered. These consultative mechanisms lead to the development of BCMMB policy and, where required, the creation or amendment of regulation in the form of the Consolidated Order.

Responsibility for day to day BCMMB operations vests with the General Manager. In addition to the General Manager, there are nine full time employees. The accounting firm of KPMG LLP in New Westminster performs milk plant audits on a fee for service basis. Herd inspections, which are an integral part of the audit activity for producer vendors, are performed by a part time contractor. Legal services are obtained from the law firm Macaulay McColl. When necessary, investigation and surveillance services are provided by licensed investigators.

Not to the exclusion of others, fundamental day to day operations are:

- licensing all producers, processors and milk transporters;
- maintaining a register of licensed producers;
- serving as the registrar of milk quota, including establishing the terms on which milk quota is allotted, held, altered, suspended or cancelled;
- establishing milk utilization classes and accounting values;
- administering the monthly producers' equalization pool, including reconciliation of milk production and processor sales and collecting and remitting industry prescribed fees;
- administering the regulatory authority to direct milk for use in all milk classes;
- administering milk marketing regulations for industry compliance purposes, including, when warranted, making use of inspection authority;
- communicating with dairy industry stakeholders through an established communications program, including the preparation and circulation of the monthly newsletter;
- liaising with Government, British Columbia dairy and agriculture organizations and milk marketing boards and agencies outside of British Columbia; and
- delivering Board authorized services.

During the reporting period, Board decisions resulted in amendments to BCMMB authority, changes to administration practices or the performance of directed measures. A list of significant accomplishments that occurred during the 2000/2001 dairy year is set out below.

- Amendments to the Consolidated Order during the reporting period were as follows:
  - quota swap minimum amount reduced from 500 kilograms of TPQ to 200 kilograms;
  - general allotments to be allocated to licensed producers on a pro rata basis;
  - changes were made to Commercial Export Milk references for the purpose of remaining consistent with the scheme and Canada's multilateral and bilateral trade obligations;
  - the transfer of milk quota involving siblings where the production unit remains intact and on the same real property is exempt from the transfer assessment policy;
  - Producer Temporary Special Administration Levy for Dairy Farmers of Canada legal costs for WTO defense purposes established November 2000 and rescinded June 2001;
  - Vendor Marketing Costs and Losses Levy was imposed on processors reporting fluid milk sales in Classes 1(a), 1(b)(i) and 1(c) effective February 2001; and
  - accounting values changed each month for Special Milk Classes and on February 1, 2001 for fluid and industrial milk classes.
- General TPQ allotment of 523,304 kilograms effective November 2000 on a pro rata basis;
- General TPQ allotment of 385,851 kilograms effective December 2000 on a pro rata basis;
- WMP pooling methodology changed from total solids to actual Multiple Component Pricing effective August 1, 2000 leading to comparatively reduced monthly equalization obligations;
- British Columbia's share of the Canadian Dairy Commission 1999/2000 dairy year surplus ($440,000) distributed to licensed producers in November 2000;
- Equalization funds in the amount of $3.8 Million held in trust by the Canadian Dairy Commission in regard to anticipated retroactive changes to national and regional pooling calculations distributed to licensed producers in May 2001;
- Changes made to monthly milk quota allocation administration resulting in greater production flexibility; and
- In preparation for the 2001/2002 dairy year, the $1.10 per hectolitre handling charge was eliminated, and as is the case in other jurisdictions, Class 3 was segregated into Class 3(a) for cheeses other than cheddar and Class 3(b) for all types of cheddar cheese.

In the later part of the reporting year, staff focused on preparing the Board for becoming the first receiver of milk. This included plant of last resort considerations, paying producers for delivered milk, implementing a milk quality bonus and administering the cost sharing of freight.

The goal of BCMMB staff is to provide accurate and timely administrative services for producers and processors. Board operations and work activities are constantly examined to gain greater efficiencies and achieve cost savings wherever possible.

Lastly, I extend my appreciation to the BCMMB staff for their dedicated efforts. Their work during the reporting period permitted the Board to meet its legislative and regulatory obligations and its administration and service objectives.

Thomas A. Demma, P. Ag.
General Manager

Financial Statements of

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Year ended July 31, 2001

KPMG LLP
Chartered Accountants
#200 – 9123 Mary Street
Chilliwack BC V2P 4H7
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AUDITORS' REPORT TO MEMBERS

We have audited the balance sheet of British Columbia Milk Marketing Board General Fund as at July 31, 2001 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board General Fund as at July 31, 2001 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 25, 2001

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is a member firm of KPMG International, a Swiss association.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND
Balance Sheet

July 31, 2001, with comparative figures for 2000

	2001	2000
Assets		
Current assets:		
Cash	$ 8,097,577	$ 5,424,414
Accounts receivable (Note 3)	3,848,665	3,704,731
Prepaid expenses	-	6,300
	11,946,242	9,135,445
Investment (Note 4)	63,837	76,504
Capital assets (Note 5)	90,814	89,982
	$ 12,100,893	$ 9,301,931
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 103,593	$ 160,570
Fees payable or refundable (Note 6)	4,789,947	4,418,642
Unearned fees (Note 7)	4,015,527	1,925,557
	8,909,067	6,504,769
Net assets:		
Invested in capital assets	90,814	89,982
Internally restricted	1,843,575	1,843,575
Unrestricted	1,257,437	863,605
	3,191,826	2,797,162
Commitment (Note 10)		
Contingent liability (Note 11)		
	$ 12,100,893	$ 9,301,931

On behalf of the Board:

John Jansen, Chairman

Ben Janzen, Secretary-Treasurer

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Revenues and Expenditures

Year ended July 31, 2001, with comparative figures for 2000

	2001	2000
Revenues:		
Other agencies (Note 8)	$ 25,080,232	$ 33,437,686
Board (Note 9)	1,604,021	1,583,027
	26,684,253	35,020,713
Less transfers to other agencies (Note 8)	25,080,232	33,437,686
	1,604,021	1,583,027
Interest	374,821	255,184
Special projects expense recovery	50,323	-
Over quota and unlicenced producer fees - prior years	-	18,135
	2,029,165	1,856,346
Expenditures:		
Amortization	22,704	22,495
Audit - Board	17,000	17,000
- Vendor	160,167	140,107
Board member per diems	176,275	155,450
Committees	841	829
Consulting and contract wages	40,603	38,750
Data processing	87,015	85,748
General office and administration	278,485	254,243
Legal	93,452	99,719
Salaries and benefits	513,760	540,446
Special projects	51,549	107,740
Travel	192,650	253,253
	1,634,501	1,715,780
Excess of revenues over expenditures	$ 394,664	$ 140,566

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Changes in Net Assets

Year ended July 31, 2001, with comparative figures for 2000

	2001				2000
	Invested in capital assets	Internally restricted	Unrestricted	Total	Total
Balance, beginning of year	$ 89,982	$ 1,843,575	$ 863,605	$ 2,797,162	$ 2,656,596
Excess (deficiency) of revenues over expenditures	(22,704)	-	417,368	394,664	140,566
Change in investment in capital assets	23,536	-	(23,536)	-	-
Balance, end of year	$ 90,814	$ 1,843,575	$ 1,257,437	$ 3,191,826	$ 2,797,162

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Cash Flows

Year ended July 31, 2001, with comparative figures for 2000

	2001	2000
Cash provided by (used in):		
Operating:		
Excess of revenues over expenditures	$ 394,664	$ 140,566
Items not involving cash:		
Amortization of equipment	22,704	22,495
Amortization of prepaid rent	21,667	19,385
Net changes in non-cash working capital balances relating to operations:		
Accounts receivable	(143,934)	265,918
Prepaid expenses	6,300	(6,300)
Accounts payable and accrued liabilities	(56,977)	(15,670)
Fees payable or refundable	371,305	(1,051,584)
Unearned fees	2,089,970	(54,176)
	2,705,699	(679,366)
Investing:		
Purchase of capital assets	(23,536)	(17,225)
Increase in investment	(9,000)	(2,000)
	(32,536)	(19,225)
Increase (decrease) in cash position	2,673,163	(698,591)
Cash position, beginning of year	5,424,414	6,123,005
Cash position, end of year	$ 8,097,577	$ 5,424,414
Supplementary cash flow information:		
Interest received	$ 316,430	$ 203,497

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND
Notes to Financial Statements

Year ended July 31, 2001

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1. General:

(a) The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations. The General Fund includes all statutory activities of the Board with the exception of Milk Pool Equalization Fund which is accounted for as a distinct fund and reported on separately.

The Milk Pool Equalization Fund has $85,307,920 in equalization revenue and $85,307,920 in equalization expenditures and $12,208,873 in assets and liabilities to July 31, 2001 which are not included in these financial statements.

(b) The Board remits Equalization payments to the Canadian Dairy Commission ("CDC"). The CDC receives the funds in respect of milk and dairy products in inter-provincial trade and, as agent for the Board, distributes them pursuant to prevailing pooling agreements, and, in respect of milk and dairy products in international export trade, pursuant to the above legislation.

2. Significant accounting policies:

(a) Unearned fees:

Unearned fees consists of:

i) the difference between the world price received by producers and domestic price paid by processors for milk shipments assessed by the Board based on individual producer's market share quotas and those computed by the CDC based on the aggregate provincial allotment of quota for the dairy year; plus,

ii) distributions of any surpluses from the marketing operations of the CDC for the year.

The Board exercises discretion over the use of these funds. At the discretion of the Board in any year following the recording of unearned fees, the amounts may be appropriated as revenue or redistributed to producers. Appropriated revenues are recorded as internally restricted funds until utilized by the Board.

2. Significant accounting policies (continued):

(b) Investments:

The investment in Central Agricultural Facility Ltd. is recorded on the equity basis which approximates cost.

(c) Capital assets:

Capital assets are recorded at cost.

Amortization of office equipment has been provided in the accounts on a declining balance basis at an annual rate of 20% calculated on the unamortized balance at the end of the year.

(d) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Accounts receivable:

	2001	2000
Milk Pool Equalization Fund	$ 3,079,525	$ 3,177,406
Accounts receivable - trade	769,140	527,325
	$ 3,848,665	$ 3,704,731

4. Investment:

The investment is in a 50% owned subsidiary, Central Agricultural Facility Ltd.

	2001	2000
Advances representing:		
Prepaid rent	$ 109,250	$ 109,250
Less amortized to rent expense	(72,163)	(50,496)
	37,087	58,754
Advances without interest or fixed terms of repayment	26,750	17,750
	$ 63,837	$ 76,504

5. Capital assets:

	2001			2000
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	$ 316,589	$ 225,775	$ 90,814	$ 89,982

6. Fees payable or refundable:

	2001	2000
Equalization payments - Special Classes and Western Milk Pool	$ 3,678,065	$ 3,869,124
Fees payable:		
Accommodation fees	169,172	161,373
Dairy Farmers of Canada - Promotion	299,826	253,273
	468,998	414,646
Other fees payable to third parties or to producers:		
Fees payable for interprovincial hauling	411,226	-
Skim-off payable to Dairy Farmers of Canada	118,998	134,872
Domestic/over-quota fees	62,745	-
Marketing costs and losses fees	49,915	-
	642,884	134,872
	$ 4,789,947	$ 4,418,642

7. Unearned fees:

	2001	2000
Balance, beginning of year	$ 1,925,557	$ 1,979,733
Add:		
Over quota - domestic/world price differential	1,519,362	1,155,129
In quota fees charged to producers	395,762	-
Over quota - interprovincial freight	232,433	-
Fees - prepaid	16,753	-
	4,089,867	3,134,862
Less:		
Credited to producers in the year	74,340	1,202,876
Transferred to operations	-	6,429
	74,340	1,209,305
Balance, end of year	$ 4,015,527	$ 1,925,557

8. Fees - other agencies:

During the year the following fees were assessed by the Board for remittance to other agencies:

	2001	2000
Assessed on producers via Milk Pool Equalization Fund payments for remittance to Canadian Dairy Commission:		
Special Classes pooling	$ 14,754,390	$ 18,547,735
Western Milk Pool equalization	3,900,000	3,900,000
Over quota - domestic/world price differential	1,174,306	6,281,881
	19,828,696	28,729,616
Assessed on producers for remittance to Dairy Farmer of Canada:		
Promotion	3,039,530	2,914,901
Assessed on processors for remittance to plant of last resort:		
Accommodation fees	1,695,539	1,793,169
Assessed on processors for remittance to producers:		
Marketing costs and losses fees	516,467	-
	$ 25,080,232	$ 33,437,686

9. Board fees:

During the year the following fees were assessed by the Board:

	2001	2000
Assessed on producers:		
Administration fees	$ 962,346	$ 944,679
Licence fees	145,540	152,016
Wait list fees	8,300	10,300
	1,116,186	1,106,995
Assessed on processors:		
Administration fees	477,099	467,352
Licence fees	7,290	6,068
	484,389	473,420
Assessed on transporters:		
Licence fees	3,446	2,612
	$ 1,604,021	$ 1,583,027

10. Commitment:

The Board rents its office premises under a sub-lease covering the period December 1, 1997 to November 30, 2003. Lease payments are $8,000 per month (see Note 12).

11. Contingent liability:

The Board is a guarantor of the head lease between Central Agricultural Facility Ltd. ("CAFL") and the ultimate landlord of the business premises utilized by the Board. The Board is jointly liable under the head lease for lease payments to the landlord of $9,000 per month through November 30, 2003.

12. Related party transactions:

Included in general office and administration expense is $96,000 (2000 - $96,000) in lease payments and $21,667 (2000 - $19,385) in amortized prepaid rent to lease facilities from CAFL.

The Board owns 50% of CAFL.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. Comparative figures:

Certain of the prior year's figures shown for comparison have been reclassified to conform with the current year's financial statement presentation.

Financial Statements of

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND

Year ended July 31, 2001

KPMG LLP
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#200 – 9123 Mary Street
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AUDITORS' REPORT TO THE DIRECTORS OF THE BRITISH COLUMBIA MILK MARKETING BOARD

We have audited the balance sheet of British Columbia Milk Marketing Board Equalization Fund as at July 31, 2001 and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board Milk Pool Equalization Fund as at July 31, 2001 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 25, 2001

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BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND
Balance Sheet

July 31, 2001, with comparative figures for 2000

	2001	2000
Assets		
Cash	$ 195,730	$ 215,932
Accounts receivable	12,013,143	5,341,725
	$ 12,208,873	$ 5,557,657
Liabilities		
Accounts payable (Note 3)	$ 12,028,990	$ 5,376,538
Long-term accounts payable (Note 4)	179,883	181,119
	$ 12,208,873	$ 5,557,657

On behalf of the Board:

John Jansen, Chairman

Ben Janzen, Secretary-Treasurer

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND

Statement of Revenue and Expenditures

Year ended July 31, 2001, with comparative figures for 2000

	2001	2000
Revenue:		
Equalization receipts	$ 85,243,163	$ 59,906,309
Interest	64,757	56,886
	85,307,920	59,963,195
Expenditures:		
Equalization payments (Note 5)	85,307,920	59,963,195
Excess of revenue over expenditures	$ -	$ -

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND
Notes to Financial Statements

Year ended July 31, 2001

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1. **General:**

The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations.

The Milk Pool Equalization Fund is the method used by the Board to enable producers to participate in all of the sales in each of the Milk Classes established by the Board proportionate to the quota allotted to each producer.

These statements do not include the general fund operations of the board which are reported on separately.

2. **Western Milk Pool:**

Effective March 1, 1997 the four western provinces, British Columbia, Alberta, Saskatchewan and Manitoba and the Canadian Dairy Commission made an agreement named the Western Milk Pooling Agreement. The purpose of the Agreement is to extend the pooling arrangements within each of the provinces so that all producer returns are pooled among producers in all of the western provinces, as if the western provinces constituted a single market.

3. **Related fund balances:**

Included in accounts payable is an amount of $3,079,525 (2000 - $3,177,406) owing to the Board's General Fund. This amount represents Special Classes, Western Milk Pool and Over Quota - domestic/world price differential equalization settlements charged to producers through the Milk Pool Equalization Fund.

4. **Long-term accounts payable:**

This amount represents an accumulation of the excess of equalization receipts over equalization payments. It is used to ensure adequate funds are available to meet cash flow needs. The Board does not intend to pay this amount within the next year, accordingly it is classified as a long-term accounts payable.

5. Related fund expenditures:

Included in equalization payments are funds paid or payable to the Board's General Fund for Special Classes, Western Milk Pool, and Over Quota - domestic/world price differential equalization settlements. These expenditures totalled $14,754,390, $3,900,000 and $1,174,306 respectively for the 2001 fiscal year (2000 - $18,547,735, $3,900,000 and $6,281,881 respectively).

6. Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the reported period. Actual results could differ from those estimates.

7. Statement of cash flow:

A statement of cash flow has not been prepared as the information is readily apparent from the financial statements presented.

STATISTICAL OVERVIEW

On July 31, 2001 there were 709 milk producers in British Columbia. A breakdown of producer populations and quota holdings by region is presented in Table 1 of Appendix A.

Statistical information on milk production, utilization and sales is presented in Tables 2 to 4 in Appendix A. During the 2000/2001 dairy year 601,235,612 litres of milk were produced in British Columbia (see Table 2). Of this total production, 362,244,001 litres were utilized in the Class 1 market (see Table 3 for a breakdown of Class 1 milk sales by product) and 238,991,611 litres were used in the processing of non-fluid dairy products.

Total milk production in the province increased by 1.96 percent or 11,529,492 litres during the period from August 1, 2000 to July 31, 2001 over the corresponding period in 1999 and 2000 (see Table 2). Class 1 utilization during the August 1, 2000 to July 31, 2001 period increased by 2,920,752 litres or 0.81 percent over the same period in 1999 and 2000 (see Table 2). Industrial milk utilized during the 2000/2001 dairy year compared to the 1999/2000 dairy year increased by 8,608,740 litres or 3.74 percent (see Table 2).

On March 1, 1997 the Western Milk Pool (WMP) was formed consisting of British Columbia, Alberta, Saskatchewan and Manitoba. Production and sales figures for the WMP from August 1, 2000 to July 31, 2001 are presented in Table 4 of Appendix A. Total production of butterfat in the WMP was 62,948,963 kilograms during the 2000/2001 dairy year (see Table 4). Class 1 milk sales in the WMP during the same period were 869,380,484 litres (see Table 4).

There were 34 dairy plants licensed by the Board to process milk as at July 31, 2001. Licensing statistics are provided in Table 5 of Appendix A.

Note: Table 2 includes milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 3 does not.

GOING CONCERN SALES AND OTHER TRANSFERS

There were 58 transfers of Total Production Quota (TPQ) during the 2000/2001 dairy year that were completed without the use of the quota exchange. Amongst these 58 transactions were 19 partial transfers, 5 family transfers, 16 name changes and 8 merge/splits that accounted for 710,479 kilograms of the total kilograms transferred. Going concern sales resulted in 147,866 kilograms of TPQ being transferred. The Board assessed 12,910 kilograms under its assessment policy. Details of TPQ transfers during the 2000/2001 dairy year are shown in Table 6 of Appendix A.

QUOTA EXCHANGE

Two quota exchanges were run every month except for July as there are no transfers effective August 1. Details of the quota exchange market clearing prices for the 2000/2001 dairy year are given in Table 7 of Appendix A.

PROVINCIAL/FEDERAL MANUFACTURED MILK QUOTA

The Manufactured Milk Quota (MMQ) allocated to British Columbia for the 2000/2001 dairy year was 8,023,924 kilograms on August 1, 2000. This was increased to 8,544,340 kilograms on November 1, 2000 and then decreased to 8,339,650 kilograms on April 1, 2001. British Columbia produced 36,919 kilograms of butterfat for the Domestic Dairy Product Innovation Program. British Columbia's deemed MMQ under the Western Milk Pooling Agreement was 10,266,363 kilograms as of July 31, 2001.

GRADUATED ENTRY PROGRAM

To provide a major portion of the quota necessary for the Graduated Entry Program (GEP), a transfer assessment policy was introduced in August 1986 for fluid quota and in January 1991 for MMQ. The assessment was reduced from 10% to 5% in April 1995. Effective August 1, 1999 the transfer assessment policy was discontinued for TPQ sold on the quota exchange. During the 2000/2001 dairy year the TPQ transfer assessment remained at 5% for going concern sales and partial transfers. Details of the GEP are provided in Tables 8 and 9 of Appendix A.

VENDOR AUDITS

Throughout the 2000/2001 dairy year, the auditing of licensed vendors followed the Board established vendor audit schedule. Although vendors were typically audited on a quarterly basis, the specific frequency for each vendor conformed to risk assessment principles. Characteristics such as plant size and product variety influenced the frequency of vendor audits. Larger vendors were audited from four to six times during the dairy year while two audits was the norm for smaller vendors.

As was expected for the 2000/2001 dairy year, vendor auditors uncovered variances that were characterized as insignificant when examined from the perspective of the total value of milk delivered each month by producers. The finding of audit variances by vendor auditors is not uncommon because vendors capture and record large amounts of data, and slight over or under reporting can occur. There was no trend evident among any of the licensed vendors that the incidence of audit variances exceeds normalcy.

Upon identification, audit variances were incorporated into subsequent monthly equalization pools as audit adjustments. A review of the audit adjustments made during the 2000/2001 dairy year as set out in each of the monthly producer equalization pools serves to demonstrate that audit variances have occurred. However, they have not been of a nature where the monthly blend price or the monthly value for any of the three milk components has been significantly affected.

SUMMARY OF LEGAL PROCEEDINGS INITIATED OR RESOLVED DURING THE 2000 - 2001 DAIRY YEAR

There were no legal proceedings initiated during the period from August 1, 2000 to July 31, 2001.

SUMMARY OF APPEALS TO THE B.C. MARKETING BOARD INITIATED OR RESOLVED DURING THE 2000 - 2001 DAIRY YEAR

Pendray Farms Limited

An appeal filed in March 2001 by Pendray Farms Limited, a licensed producer, referred to a decision by the Board concerning the transfer of quota. The appellant withdrew this appeal in June 2001.

APPENDIX A
STATISTICAL TABLES

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TABLE 1 - Regional Statistics for British Columbia as at July 31, 2001

Region	Number of Producers*	TPQ Held (kg)
Bulkley Valley	15	263,556
Cariboo	9	302,413
Fraser Valley	492	15,792,733
Kootenays	15	551,235
Okanagan	95	2,477,897
Peace River	5	118,611
Vancouver Island	78	2,744,130
Total	709	22,250,575

* Includes licensed producers in Class C to Class F

TABLE 2 - Qualifying Milk Production in British Columbia for the 2000/2001 and 1999/2000 Dairy Years

	PRODUCTION		UTILIZATION CLASS 1		UTILIZATION OTHER CLASSES	
	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres
2000/2001 Totals	601,235,612	1,647,221	362,244,001	992,449	238,991,611	654,772
1999/2000 Totals	589,706,120	1,611,219	359,323,249	981,758	230,382,871	629,461
Volume Change	11,529,492	36,002	2,920,752	10,691	8,608,740	25,311
Percent Change	1.96%	2.23%	0.81%	1.09%	3.74%	4.02%

Notes: Table 2 includes milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 3 does not.
Table 2 does not include milk produced by Cottage Industry Producer Vendors. That milk is processed into non Class 1 products.

TABLE 3 - Class 1 Milk Sales in British Columbia for the 2000/2001 and 1999/2000 Dairy Years

	2000/2001 Litres	1999/2001 Litres	Volume Change	Percent Change
Homogenized Milk	67,306,791	68,131,152	-824,361	-1.21%
Skim Milk (2%B.F.)	130,463,655	131,261,882	-798,227	-0.61%
Skim Milk (1%B.F.)	77,103,727	75,490,052	1,613,675	2.14%
Skim Milk	48,090,770	47,606,108	484,662	1.02%
Chocolate Milk	10,757,337	10,361,157	396,180	3.82%
Buttermilk	3,276,408	3,273,107	3,301	0.10%
Light Cream (10%B.F.)	15,361,128	14,789,124	572,004	3.87%
Cream (18%B.F.)	1,358,486	1,045,114	313,372	29.98%
Whipping Cream (32%B.F.)	5,178,852	5,137,759	41,093	0.80%
Eggnog	1,047,643	782,924	264,719	33.81%
Cordials	499,311	465,149	34,162	7.34%
All Products	360,444,108	358,343,528	2,100,580	0.59%

Note: Table 3 does not include milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 2 does.

TABLE 4 - Western Milk Pool Statistics for the Period from August 1, 2000 to July 31, 2001

	CLASS 1 SALES (LITRES)	% OF CLASS 1 SALES (LITRES)	CLASS 1 SALES PLUS EXCLUSION (LITRES)	AVG. B/F ALL MILK (KG/HL)	CLASS 1 SALES PLUS EXCLUSION (KG)	DEEMED CLASS 1 (KG)	DEEMED INDUSTRIAL (KG)	TOTAL PRODUCTION (KG)
Manitoba	111,964,644	12.88%	117,591,094	3.7654	4,429,759	5,672,388	5,207,793	10,880,181
Saskatchewan	50,860,315	5.85%	53,110,431	3.7185	1,977,540	4,064,070	3,642,368	7,706,438
Alberta	344,612,178	39.64%	355,381,654	3.6306	12,914,245	11,669,796	10,526,638	22,196,434
British Columbia	361,943,347	41.63%	372,260,615	3.6854	13,726,441	11,641,735	10,524,175	22,165,910
TOTAL	869,380,484	100.00%	898,343,794		33,047,985	33,047,989	29,900,974	62,948,963

TABLE 5 - Licensing Information for British Columbia

CLASS OF LICENCE	A	B	C	D	E	F	G	H
ISSUED BETWEEN AUGUST 1, 2000 AND JULY 31, 2001	22	13	749	0	2	1	4	19
CANCELLED BETWEEN AUGUST 1, 2000 AND JULY 31, 2001	6	1	18	0	0	0	0	0
IN EFFECT JULY 31, 2001	16	12	731	0	2	1	4	19
IN EFFECT JULY 31, 2000	16	9	724	0	2	1	2	12

CLASS A LICENCE ISSUED TO: VENDORS PROCESSING BOTH FLUID AND NON FLUID MILK PRODUCTS.

CLASS B LICENCE ISSUED TO: VENDORS PROCESSING ONLY NON FLUID MILK PRODUCTS.

CLASS C LICENCE ISSUED TO: PRODUCERS HOLDING QUOTA AND SHIPPING THEIR MILK TO A CLASS A OR CLASS B LICENSED VENDOR.

CLASS D LICENCE ISSUED TO: PRODUCERS HOLDING QUOTA AND PROCESSING THEIR QUOTA MILK, ON THEIR FARM, INTO BOTH FLUID AND NON FLUID PRODUCTS.

CLASS E LICENCE ISSUED TO: PRODUCERS HOLDING MARKET SHARING QUOTA AND PROCESSING THEIR QUOTA MILK, ON THEIR FARM, INTO NON FLUID PRODUCTS.

CLASS F LICENCE ISSUED TO: PRODUCERS WITH WHOM THE BOARD HAS ENTERED INTO AN AGREEMENT WITH RESPECT TO THE PRODUCTION OF MILK FOR A SPECIALTY PRODUCT OR PRODUCTS DESTINED FOR A SPECIALTY MARKET.

CLASS G LICENCE ISSUED TO: PROCESSORS WITH WHOM THE BOARD HAS ENTERED INTO AN AGREEMENT WITH RESPECT TO THE PROCESSING OF MILK INTO A SPECIALTY PRODUCT OR PRODUCTS DESTINED FOR A SPECIALTY MARKET.

CLASS H LICENCE ISSUED TO: TRANSPORTERS OF MILK.

TABLE 6 - Quota Transfers in British Columbia from August 1, 2000 to July 31, 2001

Quota Exchange		Kilograms
Unused TPQ		151,323
Used TPQ		80,826
Going Concern Transfers		
Unused TPQ		108,433
Used TPQ		39,433
Partial Transfers		
Unused TPQ		76,022
Used TPQ		13,026
Other Transfers		
Family	103,681	
Name Changes	433,557	
Merge/Splits	84,193	
Total Other Transfers		621,431
TOTAL ALL TRANSFERS		**1,090,494**

TABLE 7 - Quota Exchange Market Clearing Prices in British Columbia from August 2000 to July 2001

	First Quota Exchange		Second Quota Exchange	
Month	Unused TPQ ($/kg)	Used TPQ ($/kg)	Unused TPQ ($/kg)	Used TPQ ($/kg)
Aug-00	$52.00	N/A*	$50.00	N/A*
Sep-00	$49.00	N/A*	$46.00	N/A*
Oct-00	$46.00	$41.00	$46.00	$38.00
Nov-00	$48.00	-	$48.00	-
Dec-00	$48.50	$43.00	$49.00	$44.00
Jan-01	$50.00	$44.00	$51.00	$42.00
Feb-01	$49.00	$44.00	$48.00	$46.00
Mar-01	$51.00	$46.50	$52.00	-
Apr-01	$53.75	$45.00	-	$43.00
May-01	-	$45.00	$53.00	$46.00
Jun-01	$52.50	$47.25	$50.75	$48.00
Jul-01	N/A**	N/A**	N/A**	N/A**

* No Used TPQ Exchanges in August and September

** No Unused or Used TPQ Exchanges in July

TABLE 8 - Number of Producers Started on the Graduated Entry Program

Year	Fraser Valley	Okanagan	Kootenays	Cariboo	Peace River	Vancouver Island	Total
1991	7	3					10
1992	8	3					11
1993	5	2					7
1994	5						5
1995	6	1					7
1996	8	2					10
1997	9	1					10
1998	6	4					10
1999	2	2					4
2000	2						2

TABLE 9 - Total Production Quota Issued to Graduated Entry Program Participants

Year	Producers Started on Program	Initial Allotment of Total Production Quota (Kilograms)	Matching Allotment of Total Production Quota (Kilograms)	Total Allotment (Kilograms)
1997	10	29,500	30,431	59,931
1998	10	29,500	32,914	62,414
1999			1,414	1,414
2000			1,599	1,599
		Temporary Allotment of Total Production Quota (Kilograms)		
1999	4	28,000		28,000
2000	2	14,000		14,000

NOTES